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# **Assembly Committee on Jobs, Economic Development, and the Economy**

## **Oversight on the Programs of the Governor's Office of Business and Economic Development**

On Tuesday, March 15, 2016, the Assembly Committee on Jobs, Economic Development, and the Economy will be holding a program oversight of the Governor Office of Business and Economic Development (GO-Biz). This will be the first comprehensive review of GO-Biz since it was codified pursuant to AB 29 (*John A. Pérez Chapter 475, Statutes of 2011*).

In preparation for this hearing, the JEDE Committee has reviewed statute, researched state and local economic development activities, engaged with public and private stakeholders, and met with executive and program staff from a variety of public and private entities involved in community, economic, and workforce development activities.

The JEDE Committee held three related informational hearings in 2015, and on March 1, 2016, the JEDE Committee continued to refine its oversight strategy. The March 1, 2016, hearing reviewed evaluation methods for understanding economic development activities and hearing from stakeholders on their assessment of the state's current economic development environment to serve as a foundation for today's hearing.

### ***Hearing Structure***

As is custom and practice, the hearing will start with opening remarks by the JEDE Committee members. Panorea Avdis, the Director of GO-Biz will then be invited to give her opening remarks and generally update the JEDE Committee on role and accomplishments of GO-Biz.

The next part of the hearing will be organized around three policy themes: small business assistance; international trade; and general business assistance. Each of these themes will be opened with an overview related to GO-Biz programs, followed by brief introductory remarks by stakeholder groups who have been invited to help enhance the dialogue and provide a broader context for the discussion.

The Committee goal is to spend one-half of the 40 minute panel hearing formal presentations from GO-Biz and stakeholders and the other half in a three-way discussion. The Chair recognizes the short nature of the panels and is prepared to request a subsequent hearing to receive additional information and allow for greater stakeholder input. No recommendations will be made at this hearing in order to allow the JEDE members to consider the information being discussed and for GO-Biz to participate in the development of those recommendations.

To further the collaborative nature of the hearing, the background materials have been developed into program area "Workbooks", which include a statutory review, summary of key features of the programs, and a list of potential areas for further discussion. These Workbooks have been developed to provide a common basis for reviewing the programs and services of GO-Biz. Over the course of this and subsequent hearings, the Workbooks will be updated to reflect new information.

## **Foundation for Legislative Oversight**

Program oversight is fundamental to the Legislature's duty as a co-equal branch of government. According to the National Conference of State Legislatures, there has been an increasing interest among state legislatures to schedule systematic program reviews within their policymaking process. These state legislatures, like the California Legislature, see legislative oversight as an essential check and balance within tripartite constitutional governments.

In choosing to calendar the programmatic review of GO-Biz, the JEDE Committee considered the following:

- The California State Assembly has never undertaken a comprehensive review of the government entity;
- 2016 marks the fifth year since codification of the Governor's Office of Economic Development through the enactment of AB 29 (John A. Pérez), Chapter 475, Statutes of 2011;
- 2016 marks the fourth year since the Governor submitted a reorganization plan to the Legislature, which added substantial new duties to GO-Biz;
- GO-Biz's role as the state's lead entity for economic strategy is central to the state's economic health and ability to finance services that protect and promote a high quality of life for its residents; and,
- Data shows that while overall state economic growth remains positive, and in some cases record breaking, not all areas of the state and only select demographics of the population are sharing in the resulting prosperity.

Given the lack of a prior review and the changing economic environment in the state, the JEDE Committee Chair directed staff to develop a preliminary oversight plan and submit the plan to the Office of the California State Assembly Speaker for review and hearing approval.

## **Framework for Legislative Review**

Policy committees are encouraged to undertake both broad programmatic oversight, as well as holding targeted reviews of programs and services that pose especially high risk should they fail or for which evidence suggests a closer examination is warranted. Best practices recommend that legislative policy committees undertake program performance reviews in a systematic and objective manner. Careful attention is to be made to align the scope of the review to mandates and authorities contained in statute, regulation, and other official policy documents.

Presentations during the March 1, 2016, form the foundation for GO-Biz program review. The hearing provided background on the oversight hearing process and information on economic development evaluation methods, stakeholder perspectives on the role of state and local programs in helping communities, businesses, and workers, be successful in the current economy. The Committee's program review will address such issues as the ones listed below, which come from the California State Auditor's website, including:

- The extent to which legislative, regulatory, or organizational goals are being achieved;

- The extent to which programs duplicate, overlap, or conflict with other related programs;
- The relative cost and benefits or cost effectiveness of program performance; and
- The reliability, validity, and relevance of data related to the performance of a program.

It is the goal of this oversight hearing to facilitate a thoughtful and outcome oriented discussion between the Legislature and the Administration about program improvements to achieve greater policy objectives, increase transparency, better integrate programs within the state's broader portfolio of related programs, and to identify gaps or unintended outcomes.

## Program Evaluation within the Context of the California Economy

Economic conditions change over time, which impacts the types of assistance communities, businesses, and workers may need to mitigate challenges and leverage new opportunities. The capacity to take advantage of program and services also varies over time, as well as between different communities and among different population groups.

In order to remain current, a state's overall portfolio of economic development programs must be continually evaluated both individually and as a part of the broader set of public and private programs and services that support economic growth and community prosperity.

*The demands of the current economy form a cornerstone for evaluating program performance.*

A cornerstone of the JEDE Committee's oversight framework includes the consideration of how programs and policies meet the demands of the state's most pressing economic development issues. This subsection provides an overview of the California economy and the growing inequality among geographic regions, age groups, and communities of color. In **Appendix D**, a fact sheet on the California economy is provided and **Appendix F** includes a diagram displaying the 10 drivers of the California economy and a chart identifying key economic trends impacting California's economy.

### ***Profile on California***

California is home to over 39 million people, providing the state with one of the most diverse populations in the world, often comprising the single largest concentration of nationals outside their native country. In 2014, this diverse group of business owners and workers produced \$2.3 trillion in goods and services; \$174.1 billion of which were exported to over 220 countries around the world.

If California were a country, its 2014 GDP would place it 8th among nations, ranking as follows: United States (\$17.41 trillion), China (\$10.38 trillion), Japan (\$4.61 trillion), Germany (\$3.86 trillion), France (\$2.84 trillion), Brazil (\$2.35 trillion), California (\$2.31 trillion); Italy (\$2.14 trillion), India (\$2.05 trillion), and Russia (\$1.85 trillion). *The Department of Finance will not release 2015 GDP for California until June 2016, so for comparisons 2014 data is being used.*

Historically, a number of factors have contributed to California's significant position within the global marketplace, including its strategic west coast location, the size of its consumer based, the strength of its dominant industry sectors, its economically diverse regional economies, its skilled workforce, and its

culture of innovation and entrepreneurship, particularly in the area of technology. California's 29 million working age individuals comprise the single largest workforce in the nation, are comparatively younger, and have an educational achievement level above the national average. As an example, over 30% of the working age population in California holds at least a bachelor's degree.

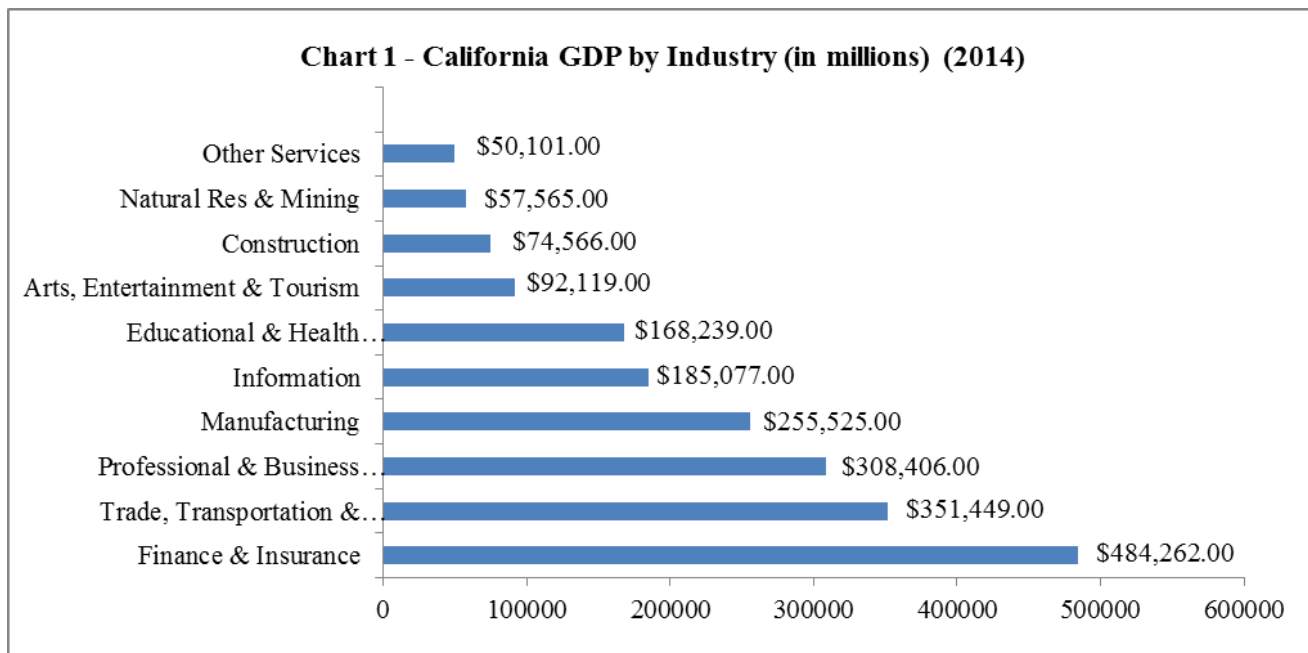
Many policy makers and economists describe California as having not a single economy, but having a highly integrated network of a dozen or so regional economies. While biotech has a comparative advantage in some regions, information technology drives growth in others. This economic diversity contributed to California's ability to aggressively move out of the recession, ranking number two in the nation by *Business Insider* for fastest growing economy in the nation in August 2014 and being named as having the fourth best overall economy in March 2015. **Appendix D** includes a fact sheet on the state's economy.

California's has one of the most robust groups of small businesses in the nation, consistently meeting the niche needs of dominant and emerging innovation-based industry sectors in the U.S. and around the world. Nearly 90% of businesses in California have less than 20 employees. Businesses with no employees comprise 80% of businesses. **Appendix E** includes two charts on California small businesses.

### ***Dominant and Emerging Business Sectors: California's Strengths***

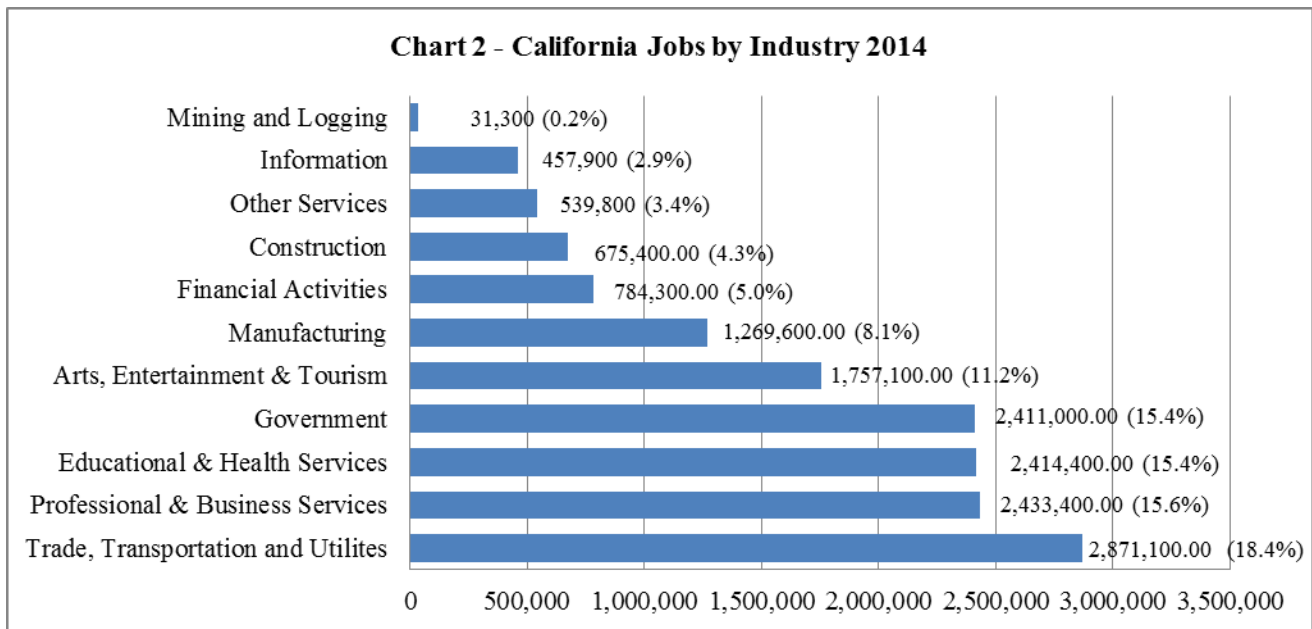
Many economic development programs are designed to encourage and support dominant and emerging industry sectors, including the State Sales and Use Tax Exclusion Program and state and local training activities paid for by federal Workforce Innovation and Opportunity Act of 2014. Not all programs are designed to target certain industry sectors. Some programs are intended to serve all or a majority of industry sectors. California Competes is an example of a broad-based tax. **Chart 1** on the previous page displays information from the U.S. Census Bureau on California's private industry sectors based on its contribution to the state's GDP.

In 2014, the finance and insurance sector provided the largest economic contribution to the state's



overall GDP, \$484 billion of the \$2.3 trillion. Firms in this industry sector include entities that raise funds, pool risk, and facilitate financial transactions including real estate.

**Chart 2**, developed using data provided by the California Employment Development Department, shows California's largest industry sectors based on employment. Based on total employment, the trade, transportation, and utilities sector is largest, employing 2.8 million (18.4% of California jobs). Jobs in this sector also support employment in other industry sectors including Manufacturing (8.1%), Professional Services (15.6%), and Financial Activities (5.0%).



Many of the jobs associated with these major industry sectors are also associated with high wages. Manufacturing is considered the "gold standard" for jobs because of its high wages, inclusion of small businesses within its global supply chains, and having a high multiplier effect on related jobs. The Milken Institute estimates that for every job created in manufacturing, 2.5 jobs are created in other sectors. In some industry sectors, such as electronic computer manufacturing, the multiplier effect is 16:1.

Advances in transportation and communication technologies are encouraging the development of previously undeveloped markets and expanding multinational business opportunities for California firms. Today, four of California's top five exports include component parts, which leave the state to be assembled and/or partially assembled before returning.

These trade related industry sectors comprise a majority of what EDD has designated as the state's "economic base" sectors, which include professional services, manufacturing, and transportation, among others. Employment in these economic base industries represents 37.3% of the state's total employment and employment growth within these sectors grew at twice the pace of the overall state economy between 2010 to 2012.

### ***Income Inequality and Disparity in Economic Opportunities: California Weaknesses***

As noted above, for the past several years, California's overall economic growth and increase in jobs has outpaced the U.S. in general, often ranking the state within the top five states in terms of its economic condition. This success, however, has not been consistent throughout the state with many regions and certain population groups still experiencing recession-related poor economic conditions.

According to the U.S. Census Bureau, California's poverty rate is 16.4% as compared to a national rate of 15.6%. It is estimated that nearly a quarter of the California children (22.7%) are living in households with annual incomes below the federal poverty line. Contributing factors to these poverty rates are stagnant wage rates, an increasing concentration of annual income among the highest income individuals, and differing job opportunities in the post-recession economy.

A review of the most recent unemployment numbers in **Chart 3** illustrates this expanding pattern of economic disparity between regions and population groups in California.

<b>Chart 3 - Unemployment December 2015 (not seasonally adjusted)</b>			
	<b>Unemployment Rate</b>		<b>Unemployment Rate</b>
<b>California</b>	<b>5.8%</b>	<b>California</b>	<b>5.8%</b>
Imperial County	19.6%	Blacks	11.0%
Los Angeles County	5.8%	Hispanics	7.6%
Orange County	4.1%	Whites	6.0%
Riverside County	6.1%	16 to 19 year olds	21.0%
San Bernardino County	5.8%	20 to 24 year olds	11.0%
San Mateo County	3.1%	25 to 34 year olds	6.2%
Tulare County	12.2%	Source: California Employment Development Department	
Ventura County	5.4%		

While the state's unemployment rate for December 2015 (not seasonally adjusted) was 5.8%, some areas of the state had lower rates, while others were considerably higher. San Mateo County recorded the lowest at 3.1% and Imperial County experienced the highest unemployment rate at 19.6%. Inland areas generally reported unemployment rates above the statewide average. As the chart above shows, Tulare County's unemployment rate was 12.2% and Riverside County was recorded as 6.1%. Coastal areas overall had lower rates than the state's, with Orange County at 4.1%, and Ventura County at 5.8%. Even densely populated and economically diverse areas like Los Angeles County reported a December 2015 unemployment rate of 5.8% (equal to the state's rate).

Looking more specifically at different population groups, the data also shows the great discrepancies between the statewide rate and key subgroups, including unemployment among Blacks and Hispanics being 11.0% and 7.6% respectively. For the youngest members of the workforce obtaining quality jobs remains a significant issue with unemployment among 16 to 34 years being well above the state average,



ranging from 6.3% to 21.1%. In other words, one-in-five of California's next generation of workers is unemployed.

Just as the unemployment data shows the growing economic disparities by geography, race/ethnicity, and age, research also confirms that a greater percentage of total aggregate earnings is going to a smaller group of individuals. According to the World Top Income Database, pretax income among those with the highest 1% of income in California comprised 9.82% of total income in 1980 and 25.31% in 2013. These findings could signal a larger issue in that a growing body of economic studies show that large-scale income disparities correlate to shorter periods of economic growth, whereas societies with lower levels of income disparity have larger and longer-term periods of growth.

Achieving job growth within globally competitive industries and addressing the state's growing income disparities may require different community and economic development approaches, as well as more coordinated efforts by industry, labor, nonprofits, and governments on a range of issues, including education, workforce training, infrastructure repair and expansion, entrepreneurship, and finance, among others.

### ***Geographic Differences in Economic Growth***

In September 2015, the California Employment Development Department released a special labor trends report which highlighted job growth in Coastal and Inland county economies. Among other findings, the report noted that total job growth from 2010 through 2014 was 9.4%, in contrast to the inland counties at only 8.7%. Reflective of the disparity in job growth were the differences in overall business development. Coastal counties added 56,000 new establishments (4.9% increase), while the inland areas had a net loss of 75 businesses during the same term. Of the 1.3 million business establishments in California in 2014, 89.4% were located in the coastal counties with the remaining (roughly) 11% headquartered in an inland county.

Further compounding the impacts of these trends was the significant concentration of inland California's growth in five counties, including: Fresno, Kern, Stanislaus, Placer, and Tulare. These five counties out of the 29 classified as inland counties accounted for nearly two out of three of the new inland county jobs (64.6% of 124,000 additional jobs). Job growth in the coastal areas was also concentrated, but not as significantly, with Los Angeles, Santa Clara, and San Diego experiencing 44.8% of the 1.2 million new jobs created in coastal disparities.

In 2014, 90.1% of nonfarm payroll was related to jobs in coastal counties and 9.9% in inland counties, 13.9 million and 1.5 million jobs respectively. While this split is partially due to the higher percentage of the population being located in those counties classified as coastal, these numbers also suggest other demographic and economic shifts.

Among other issues, the special labor trends report highlighted two key factors as contributing to the jobs imbalance including a lack of trade-related infrastructure within the inland counties and different business development patterns. California's coastal areas have three of the nation's busiest sea ports, including Los Angeles, Long Beach, and Oakland. San Diego and Port Hueneme are also important to cars and agriculture respectively. While the inland counties have tried to develop inland ports and

multimodal transportation facilities, bringing these inland resources to scale will take significant funding and focused public policy attention on upgrading inland California's logistical network.

### ***Economically Challenged Communities***

In November 2015, the National Research Network, with the support of the Annenberg Foundation, released a study that analyzed national data and related it to California's growing inequality challenge, *Hidden in Plain Sight: Why CA's Economically Challenged Cities Matter*. The study looked at the economies of the 995 U.S. cities with a population of more than 40,000, and found that 296 met the National Resource Network definition of economically challenged. In analyzing the impact of these conditions, the report found that they are serving as a drag on the overall health of the economy and are impacting the pace of economic recovery.

California is cited as having the highest concentration of these economically challenged cities (77), which represents 25% of the cities on the report's list and 40% of all cities in the state. Approximately 12 million people in California live in an economically challenged city.

### ***Stakeholder Perspectives***

Addressing the increasing disparities of California communities as illustrated by the divergent unemployment rates, rising poverty, and geographic disparities will require a focused effort to remove impediments and leverage resources. California currently has no government sponsored ongoing stakeholder engagement that facilitates these types of discussions. Ellen Harpel of Smart Incentives, who testified at the March 1, 2016, JEDE hearing, was asked to assist the Committee expand the dialogue about program oversight within the context of soliciting input from stakeholders. Below are her suggested lines of inquiry:

- Do stakeholders see the state economic development organization primarily as a leader? convener? facilitator? capacity builder?
- How could the state-local partnership be strengthened to achieve local economic development objectives?
- How do stakeholder organizations and the individuals they work with view the portfolio of economic development programs offered through the state?
- Is there sufficient information on available programs and how to use them?
- What are the most useful programs? Are there significant gaps?
- How can information sharing and collaboration between local and state economic developers be improved?

At the March 1, 2016, JEDE hearing, participants in the panel discussion on Goals for Economic Development in California were asked for their opinions on similar questions, including Gurbax Sahota (California Association for Local Economic Development); Joel Ayala (California Hispanic Chambers of Commerce); Malaki Seku-Amen (California Urban Partnership); and Tim Kelley (Imperial Valley Economic Development Corporation). The JEDE Committee also opened a public comment period to

allow other stakeholders to provide input. An additional public comment period will be opened following the March 15, 2016, hearing.

## **Preparation for the Oversight Hearing**

In the initial months of the 2015-16 Session, JEDE held two informational hearings to provide background to Committee members on the significant issues impacting the California economy, including an overview of major state and federal economic and workforce development programs; *Overview of the California Economy* (February 2015) and *Major Economic Development Policies and Programs* (March 2015) respectively.

During the course of these hearings, the Committee members had an opportunity to hear from senior public policy advisors, economists, practitioners, businesses, and other stakeholders. Testimony ranged from demographic trends, identification of successful programs from other states, changes in federal funding, and practical examples of economic challenges being faced by California businesses. Witnesses included: Mac Taylor, California Legislative Analysts; Jerry Nickelsburg, Senior Economist with the UCLA Anderson Forecast; Donna Davis, Region IX Administrator for the federal Small Business Administration; and Molly Ramsdell, Director, Washington Office, National Conference of State Legislatures, among others.

Businesses and stakeholder groups were encouraged as part of the scheduled testimony and during the public comment period to discuss current economic conditions and policies and priorities that affect California businesses. Business witnesses included Dave Petree with business start-up, Cloak and Dagger; Ehsan Gharatappeh with small business, Cellpoint Corporation; Scott Hauge representing Small Business California; Dorothy Rothrock representing the California Manufactures and Technology; and Paul Granillo with the Inland Empire Economic Partnership. Members also heard from Small Business Development Corporations and the Women's Business Centers.

During the March 2015 hearing, one panel specifically focused on the programs and activities related to GO-Biz, including having a comprehensive overview of their work by Kish Rajan, the Director of GO-Biz at that time. The background report for the hearing also described GO-Biz programs and services, reviewed its reports, and provided background on its impacts. From April through July 2015, the JEDE Committee heard and passed 15 bills related to GO-Biz. Each of the bill analyses included relevant program background to provide a context for Committee member deliberation.

In November 2015, JEDE held an informational hearing, *Building an Inclusive Economy: The State's Role in Closing California's Opportunity Gap*, which grew from the Committee member's interest in better understanding the conditions; and potential options for addressing the increasing income disparities based on different geographic regions, race and ethnicity, gender, and age. Key among the hearing recommendations was that California does not necessarily need new programs; rather, its existing programs should be evaluated to ensure they promote a more inclusive economy.

### *Committee-Sponsored Research*

Committee staff regularly track economic and workforce trends, publishing a monthly fact sheet on the California economy. In **Appendix D** a copy of the most recent Fast Facts on the California Economy is

provided. Committee staff also develop charts and other fact sheets on key topics within the committee's jurisdiction. A chart featuring information on employment among different size businesses within the U.S. and California appears in **Appendix E**.

The JEDE Committee has also reviewed GO-Biz annual reports and strategic plans, as well as materials from other public and private economic development entities. A summary of these reports is included in **Appendix C**. Among other related reports are those prepared by the Public Policy Institute of California, Brookings Institute, World Economic Forum, and the Milken Institute.

### *Additional Outreach and Writing of the Background Report*

As is the JEDE Committee's custom, staff will be preparing a background report for the March 15, 2016, hearing, which will be available through the Committee Office and posted on the Committee's website. Materials in the report will include information obtained from GO-Biz, Members of the Legislature, stakeholder groups, and the JEDE Committee's independent research. Some of the materials for the March 15, 2016, report were included in the background materials for the March 1, 2016 hearing to provide greater transparency to the oversight process and time for Members, Stakeholders, and the public to prepare.

At the direction of the Chair, the JEDE Committee staff held a preliminary briefing for Committee members' staff on February 17, 2016, at which time they also received Committee Member recommendations on additional areas of examination. Information from this meeting was shared with GO-Biz on February 18, 2016.

The JEDE Committee has also requested information from GO-Biz about its programs and services. An initial set of program information was requested on February 12, 2016. Based on a review of that information, additional information was requested for inclusion in the oversight hearing report. In general, the JEDE Committee requests have been related to data on business assistance, outreach activities, policy leadership, and individual program outcomes. While GO-Biz is generally current on its statutory reporting mandates, the JEDE Committee is interested in better understanding the workflow of the business assistance programs, as well as what types of businesses are utilizing GO-Biz services and programs, including size, industry, and geographic location. A copy of the request including the information provided by GO-Biz has been included in **Appendix A and Appendix B**.

## **Workbook Materials and Appendices**

To create a framework for this collaborative review of GO-Biz programs, background materials have been organized in Workbooks. The Workbooks reflect current information, as well as offer an opportunity for Members to make notes and for GO-Biz to add key information. Program accomplishments have specifically been identified as an area where GO-Biz is encouraged to provide additional information.

- Workbook on GO-Biz Structure and Organization (Page 1:1)
- Workbook on California Business Investment Services (Page 2:1)
- Workbook on California Competes Tax Credit (Page 3:1)
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## **Committee Contact Information**

The Assembly Committee on Jobs, Economic Development and the Economy is the committee in the California State Legislature responsible for overseeing issues related to business formation, foreign trade and investment, industrial innovation and research, and state and local economic development activities.

The Committee Office is located in the Legislative Office Building (LOB) at 1020 N Street, Room 359. The phone number to the Committee is 916.319.2090.

Mail should be addressed to: Assembly Committee on Jobs, Economic Development, and the Economy; State Capitol; Sacramento, CA, 95814. For security reasons, mail is not received or delivered to the LOB.